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CHAPTER

3

Fiscal policy choices to promote social justice

Political discourse

Fiscal policy concerns include the extent of public sector involvement in an economy; the level and sources of taxation; and the amount of government spending and how it should be prioritised. These issues can be highly divisive and subject to contentious political discourse between socialist parties, which generally favour more government spending and higher taxes, and conservative or populist parties, which urge less government involvement in an economy with lower spending and taxes. Although the outcomes of the discourse have profound implications for income and wealth distribution and the living standards of the poor, the political debate usually takes place in a secular context with no reference to religious teaching. Politicians prefer the clergy not to get involved in this discourse, even though they may have much to contribute given their knowledge of religious teaching on social justice.

Politicians can argue that they have greater legitimacy than the clergy if they are democratically elected, whereas the religious leadership is self-selected. Of course, the clergy can stand for election, but most choose to stay out of politics; a stance encouraged by politicians not only in the West, but in most of the Muslim world. Although most Muslim countries acknowledge Islam in their constitutions, this is meaningless in terms of domestic political debate over economic policy choices. Of course, the faithful can get involved in politics, either by joining secular political parties and trying to influence their agendas or by forming Islamist parties.

The latter course of action has proved to be less successful in Muslim countries, where Islamist parties have a long history of being banned as they are perceived as a threat to existing centres of entrenched power. The sectarian values that some Islamist parties propagate are also viewed as socially divisive,

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especially given the fault lines between Sunni and Shi'a adherents in most of the Islamic world and beyond. Joining existing political parties, as in the United Kingdom, has brought concrete benefits, such as provision in financial legislation to ensure Islamic banks are not at a competitive disadvantage because of the tax regime. Allowing Muslim schools to be classified as charitable institutions has also brought tax benefits, but in return the schools must implement the national curriculum and be subject to state inspections.

Economic policy implications of Muslim moral concerns

The relationship between economic efficiency and distributional justice is a core concern that has clear moral dimensions for economic policy-makers. Economic policy issues include decisions over the level and nature of taxation and government spending priorities. There is no specific Islamic teaching on fiscal policy, however, and no consensus among Islamic economists. Fiscal policy choices are to a large extent determined by political preferences, and Islamists disagree among themselves about the role of the state in economic affairs, some favouring a substantial direct role for government in economic activity while others favour a freer market economy.[1]

Although there are disagreements over economic policy, an equitable distribution of income and wealth as well as fair access to resources are viewed as moral imperatives.[2] An equitable distribution does not mean an equal distribution, which would be inefficient and detrimental to the interests of society as a whole as people's ability to manage assets varies according to their intellect, knowledge, experience and honesty. Those with command over more resources have greater accountability to their Creator, with equity defined in terms of the balance between rights and responsibilities. The latter involves ensuring resources are used for the benefit of the wider community and not simply for personal consumption and gratification. Nevertheless, consumers should not feel guilty, and having attractive and valuable possessions should not be seen as immoral or unethical provided that it is not as the result of the exploitation of others. Rather, this can be viewed as part of the bounty of Allah for which the faithful should be thankful, indeed, the faithful should not worry about their needs as Allah will take care of those who submit to His will. This certainty is liberating for believers and ensures that they are not distracted by concerns about how they will live in the future. Rather, they can focus on serving others instead of worrying about themselves.

There were four major forms of taxation levied in Muslim societies in the past, *kharaj*, land taxation; *jizya*, a head tax; *fai*, a tax on war booty; and *zakat*, a form of wealth tax. Land taxation is obviously important in traditional rural societies, and it can provide an incentive for agricultural production as if land is left fallow the owner will incur the same tax liability as the more productive farmer. There is also an equitable and redistributive dimension to *kharaj*,

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as those owning more land will pay more. Applying *jizya* is arguably more controversial from a moral perspective, as a head tax where everyone pays the same amount is arguably regressive and inequitable. The justification is that if everyone benefits from the resultant expenditure, as with street lighting for example, then this demands an equal contribution. The poor are, however, usually exempted from *jizya*, as are women and children.

The notion of individuals gaining from war booty is repugnant in most modern societies, but in traditional societies this was regarded as normal. The application of *fai* in Islamic societies served to reduce individual gains and meant that a proportion of the booty would accrue to the state, which would arguably be appropriate if the war was serving a just cause.

The writings of Islamic economists stress the importance of *zakat* and *waqf* in facilitating wealth redistribution and creating a fairer and more equitable society. *Zakat* charitable donations are the third of the five pillars of Islam, it being incumbent on every Muslim to pay an annual sum equivalent to one-fortieth of their financial assets. *Waqf* involves the establishment of charitable foundations, with the more affluent donating a portion of their wealth to these foundations whose beneficiaries include the poor and those in need. Needless to say, the achievement of the worthy objectives of *zakat* and *waqf* depends on how they are administered and by whom. There is a long history of debate on these matters, and whether *zakat* and *waqf* can be viable alternatives to taxes collected by governments to fund state expenditure. Controversially, many governments in the Islamic world have established ministries to control *zakat* and *waqf*, effectively politicising these institutions. Needless to say, many Islamic clerics have condemned this state interference with the nationalisation of hitherto private voluntary organisations.

The role of *zakat*

Translated from the Arabic *zakat* means to purify or, in other words, to recognise the social obligations involved in the accumulation of wealth. Payment of *zakat* is obligatory for Muslims, apart from those with little or no wealth. As with modern direct taxes, there is a threshold and it is only wealth in excess of that amount, referred to as the *nisab*, that incurs a *zakat* obligation. The threshold amount was traditionally defined in terms of gold and silver, which were widely used for payments in most Muslim countries. However, as the prices of gold and silver are very volatile, today the threshold for the *nisab* is calculated in national currencies, the amount in the United Kingdom being £3,500. Muslims with wealth below that amount are exempt from *zakat*.

Zakat is viewed as more central to Islamic taxation, as none of the other traditional taxes are any longer applied in contemporary Muslim states, and, most importantly, *zakat* is one of the five pillars of Islam and an obligation for all the faithful. *Zakat* is levied annually, the amount collected being, as already

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indicated, one-fortieth of the value of assets of each Muslim believer. As the value of the assets is related to the amount of the payment, *zakat* can be viewed as equitable. It is proportionate as the ratio is a constant 2.5 per cent, rather than being levied at a higher rate for those with more assets, which would result in it being classified as a progressive tax. *Zakat* payments are due on 15th of Rajab in the lunar year, which is, of course, shorter than the Gregorian year used in the West, meaning that the amount payable in the Gregorian year exceeds 2.5 per cent.

There is much debate over *zakat* issues, including to which assets it applies, how it should be collected, the use of the proceeds and whether it should be a substitute for secular taxes such as income or value added tax (VAT) or an additional levy.[3] Usually *zakat* is regarded as applying to financial assets such as funds in bank accounts and securities such as bonds or their Islamic equivalent, *sukuk*. Whether it applies to other financial assets such as shares in listed companies is more doubtful, as investors might face difficulties if they were obliged to sell their holdings to meet *zakat* obligations. Modern forms of capital gains taxation may be seen as preferable, as these are borne by those who can afford to pay, rather than by those suffering from losses in the value of their equity holdings. *Zakat* is not levied on owner-occupied property, but it can be debated whether it should be applied to private rented property or commercial real estate, which might also have to be sold to meet *zakat* obligations. If immovable property and equity investment is exempted from *zakat*, this may encourage holdings of these types of assets and discourage excessive monetary holdings in bank accounts and debt instruments.[4]

In most Muslim countries a government ministry is responsible for *zakat* collection and disbursement. In Saudi Arabia, for example, there is a Department of Zakat and Income Tax, and in Indonesia, where *zakat* collection used to be decentralised, there is now a national *zakat* agency.[5] In the UAE a state Zakat Fund was established under Federal Law 4 of 2003 as a separate agency independent from the Ministry of Justice, Islamic Affairs and Endowments. A similar position already existed in Malaysia, where a Zakat Collection Centre (*Pusat Pungutan Zakat*) was established in 1991,[6] and in Pakistan where the Ministry of Religious Affairs has exercised responsibility for the organisation of *zakat* collection and distribution since independence.[7] In the United Kingdom, there is no government involvement in *zakat* collection, but there are several voluntary agencies administrating *zakat* which are registered charities. These include *Jam'iat Ihyaa Minhaaj Al Sunnah* (JIMAS), the Association to Revive the Way of the Messenger, and the Malay Community Association of the United Kingdom. The Zakat Foundation of America has played a similar role in the United States since 2001. All these organisations have websites.[8]

Whether *zakat* collection and disbursement should be nationalised or undertaken by voluntary organisations is a debatable matter. Provided the

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ministries or agencies of national governments are honestly managed and maintain detailed records of receipts and payments, preferably independently audited, there is a strong case for them to be involved in *zakat* administration. Democratic legitimacy is not necessarily a prerequisite, but transparency and good governance of *zakat* funds are important, as is effective management. Where *zakat* collection and disbursement is independently undertaken by voluntary organisations, it may be preferable for them to be registered charities rather than profit-making commercial organisations. If professional asset management is required, this can be outsourced to financial institutions, but the charities should maintain overall control and responsibility to *zakat* payers. In most jurisdictions registered charities have to submit annual independently audited accounts to a state regulator so that they can benefit from tax advantages, such as claiming back the income tax that *zakat* payers will have already had deducted from their salaries.

Zakat revenue must be used for social expenditure for the benefit of the poor and needy, and it cannot be used for general government expenditure on investments in infrastructure or defence. Defining who qualifies as poor and needy is a debatable issue, however, as poverty is relative and a poor person in the UAE or Qatar may have a much higher income than a poor person in Afghanistan or Bangladesh. There is also the issue in countries with large expatriate populations, such as those in the Gulf, regarding whether *zakat* should be disbursed only to local nationals or to foreign workers, who are generally poorer. In the UAE, the needy are defined as those with little income, orphans, widows, divorcees, the elderly, those who are ill or incapacitated, students, the unemployed and families of prisoners and missing people. Inevitably, the same sort of questions arise with *zakat* disbursements as with other social security spending, notably whether it should be used to support broken families, who arguably have some responsibility for their own predicament, and whether these payments produce a dependency culture.

Organisations such as JIMAS confine *zakat* disbursements to within the United Kingdom, although they help asylum seekers who have already arrived, as well as those with unaffordable debts, the homeless, single parent families and Muslim students having problems in paying tuition fees. The Zakat Foundation of America focuses on emergency relief, as well as long-term sustainable development through the funding of water wells, education and skill training, access to health care and micro-finance for those who cannot obtain bank funding due to not having collateral or a regular income.

As *zakat* is designated for social security expenditure, it should not be regarded as a substitute for secular income or expenditure taxes. Indeed, there is the issue of whether it should be regarded as a tax, but rather as a form of alms-giving, which benefits not only the recipient but also the donor, as their wealth is purified through such charitable donation. In some countries, notably Malaysia, *zakat* donors are given a receipt that can be used to offset income

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tax payments. In the Gulf, there is no income tax as most government receipts come from oil revenue, but companies as well as individuals are liable for *zakat* on their financial assets.

As *zakat* is fixed it cannot be used as a tool of fiscal policy as is the case with expenditure taxes such as VAT or income tax. These can be raised to curtail aggregate demand in an economy to restrain inflation or lowered in a recession to provide an economic stimulus. *Zakat* income is pro-cyclical, rising in a boom and falling in a recession, although it is during recessionary times that more *zakat* disbursement may be required. This highlights the need to maintain reserves in *zakat* funds rather than simply balancing current receipts with current expenditure during a boom. *Zakat* funds should be cautiously managed, and they should not fall into deficit, as payment for borrowing from financial institutions would not constitute a legitimate use of *zakat*.

Waqf charitable trusts

Another important Islamic institution with a strong moral purpose is *waqf*, charitable trusts that are usually created through bequests in wills on death. Islam prescribes a fair and equitable distribution of inheritance that recognises the rights and obligations of each of the beneficiaries of an estate, but each person has discretion over how one-third of their estate can be distributed. It is usually from this portion that *waqfs* are established, but they can also be created through a lifetime donation. Once funds are designated for *waqf*, the donor has no recourse, and it is no longer their property. *Waqf* are often used to fund the building of mosques and madrassas, the educational establishments attached to mosques designated for Islamic studies.

In addition to their role in providing facilities for worship and education, *waqf* can also generate income that can be used for charitable purposes. Unlike *zakat*, where although there are reserves, most expenditure is financed from current income, *waqf* represent endowments where the initial donation can generate income which can continue in perpetuity. Although cash *waqf* can be established, which invest in *Shari'ah*-compliant securities yielding dividends and capital gains, the majority of *waqf* involve real estate, the major source of income being rent. Where *waqf* are situated in prime urban locations, such as Singapore or central Kuala Lumpur, even though some of the land may be occupied by a mosque, the remainder can be leased for commercial or residential use. The land cannot be sold, but property developers who have an opportunity to acquire a leasehold site for ninety-nine years have been willing to invest and develop these sites at no cost to the *waqf* fund. Indeed, the developers are often prepared to pay a substantial up-front sum to acquire the leasehold, with the subsequent rental income shared between the developer and the *waqf*. Such arrangements unleash the income-generating potential of *waqf* and increase the funds that can be paid to charitable causes.

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As with *zakat* administration, who governs *waqf* and the system of governance has been the subject of much debate. Historically, most *waqf* were private endowments associated with particular individuals or families, but in many countries of the Muslim world, especially those that pursued socialistic policies in their post-independence periods, *waqf* endowments were taken under the control of the state with special ministries established for their administration.[9] Such policies were pursued in Syria, Egypt and Turkey, although in the latter new legislation was passed in 2005 allowing greater autonomy for *waqf* and indeed provided tax incentives for the foundation of new *waqf*. Not unnaturally many Islamists resented the interference of the state in *waqf* affairs, although there were precedents in the Ottoman Empire where a register was maintained of *waqf* property and state courts dealt with disputes. Many of the issues debated today concerning *waqf* have preoccupied those involved with *waqf* in previous centuries, as a detailed study of *waqf* in Ottoman Algeria illustrates.[10]

The establishment of *waqf* can have implications for taxation and government spending. If *waqf* are established to help fund social expenditures by the voluntary sector, this may lower government spending on welfare.[11] Often charities are more efficient at disbursing welfare funding than government, as those who work for voluntary organisations are highly motivated, especially where charities have a religious ethic.[12] Charities being bottom up rather than top down institutions may be in a better position to ascertain society's needs than governments, which are all too often distrusted and seen as excessively bureaucratic and inflexible. Government welfare payments often result in the creation of a dependency culture and end up being non-sustainable. Naturally, when the inevitable cutbacks come, recipients are resentful of their former paymasters as their expectations of continuing support are disappointed. Charities are usually more targeted in their support, with many Islamic charities focused on helping with education funding through scholarships that enable the beneficiaries and their families to escape from dependency as their economic prospects are enhanced.

In many jurisdictions the founders and administrators of *waqf* seek charitable status for the foundation which brings tax advantages. In the United Kingdom, for example, when a *waqf* obtains charitable status donations can be offset against income tax, which enables the *waqf* administrators to reclaim a sum equivalent to the tax paid by the donor.[13] The *waqf* must be non-profit-making and submit its articles of association and annual, independently audited, financial statements of income and expenditure to the Charities Commission. Failure to submit the accounts by the deadline can result in the loss of charitable status. Where the *waqf* supports an Islamic school or college, teaching must conform to the national curriculum and be subject to government inspections to ensure the education provision is of an acceptable quality.[14] This will also make the school eligible for state funding, although with such

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support it will forgo the benefits of being independent, which apply to schools free of local authority control, but still subject to national inspection.

Government revenues and expenditures

Although *zakat* receipts and the value of *waqf* are more substantial than they have ever been, reflecting the increasing Muslim population worldwide and rising levels of wealth, they are not a substitute for government revenue and expenditures. The Islamic charitable sector has expanded rapidly in most Muslim countries, but the role of governments has grown even faster. There are, however, no accurate estimates of the value of *zakat* and *waqf* at state level, given the diversity of sources and the competing organisations involved. Most government expenditure cannot in any case be regarded as charitable, whether it is on infrastructure, or defence expenditure or, indeed, general administrative spending by government ministries with their many employees. In all Muslim countries taxation and government expenditure are largely secular, and even though many states profess a role for Islam in their constitutions in practice there is no clerical input into fiscal decision-making.

The level of government expenditure and revenues varies considerably in relation to gross domestic product (GDP) in the leading twenty Muslim majority economies, as Table 3.1 shows. As major oil exporting nations with relatively small populations, Libya and Kuwait received more revenue than any other Muslim countries, while resource-poor states such as Bangladesh and Pakistan received least. Iran's oil revenues in 2012 were adversely affected by sanctions, but Iraq's remained relatively buoyant in spite of an internal security situation that remained challenging. Saudi Arabia remained the world's largest oil exporting nation in 2012, and in absolute terms enjoyed the highest government revenue in the Islamic world.

The government of Libya spent more in relation to GDP than any other Muslim country, but some of the expenditure in 2012 may have been exceptional given the need for reconstruction and to pacify the militias following the revolution and the overthrow of the Gaddafi regime. Most oil exporting countries had a higher proportion of government spending than resource poor countries, but they managed to maintain surpluses without the need to resort to borrowing. The exceptions were Algeria and Iran, who, despite being oil and gas exporting states, had unsustainable levels of government spending. An easing of sanctions could improve Iran's revenues, however, and turn the deficit into a surplus. Despite domestic economic mismanagement in recent years, Iran is fortunate in having a relatively modest amount of government debt.

Egypt is by far the largest debtor nation in the Islamic world, with government expenditure being well in excess of revenues for many decades. The situation worsened considerably after the overthrow of Mubarak and the subsequent insecurity that crippled the tourist industry and much local manu-

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Table 3.1 Government revenues, expenditure, borrowing and debt

Country	Government revenue	Government expenditure	Government borrowing	Government debt
Algeria	39.5	44.6	–5.1	10.5
Azerbaijan	40.0	37.0	3.0	11.6
Bangladesh	12.9	16.3	–3.4	N/A
Egypt	22.6	33.4	–10.7	80.6
Indonesia	18.0	19.7	–1.7	24.5
Iran	16.5	19.0	–2.5	9.5
Iraq	49.4	44.1	4.0	34.1
Kazakhstan	27.0	22.5	4.5	12.4
Kuwait	70.0	36.0	34.0	6.4
Libya	72.3	52.9	19.3	0
Malaysia	25.2	29.8	–4.5	55.5
Morocco	28.1	35.7	–7.6	60.4
Nigeria	25.5	27.3	–1.7	18.3
Pakistan	13.1	21.5	–8.4	63.8
Qatar	39.2	31.1	8.1	35.8
Saudi Arabia	51.8	36.8	15.0	3.7
Sudan	10.0	13.8	–3.8	N/A
Tunisia	30.6	35.4	–4.9	44.0
Turkey	34.8	36.4	–1.6	36.2
UAE	35.1	21.8	13.3	16.5

Note: All data as % of GDP for 2012.

Source: World Economic Outlook Database, IMF, Washington DC, 2013.

facturing. Pakistan also has high levels of debt and unsustainable government finances despite expenditure levels being relatively modest in relation to GDP.

Indirect taxes, notably VAT and generalised sales tax (GST), have become the major source of government revenue for the resource-poor Muslim countries.[15] These sales taxes are levied in Egypt, Turkey, Morocco, Tunisia, Pakistan, Kazakhstan, Malaysia and Indonesia. In the long run these taxes will also be applied in oil and gas exporting countries as resource revenues fail to cover expenditure commitments, but for the moment these states are reluctant to introduce VAT or GST because of popular resistance despite International Monetary Fund (IMF) encouragement. From an Islamic perspective sales taxes, although not mentioned in traditional *fiqh*, can be accepted on the ground of necessity. There has been no discussion by contemporary Islamic clerics about the distributional consequences of sales taxes. They are usually classified as being neutral as they are proportionate to spending, with the poor who spend less paying minimal amounts. In countries such as Egypt, where higher rates apply on imported luxury vehicles purchased by the more affluent, the tax could be regarded as progressive insofar as the revenue is used for spending, which benefits the poor.

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Income tax is deducted from the salaries of government employees with higher earnings and those in the state sector, but as salary levels are low, the tax base is restricted. Collecting income tax from those in the private sector and the self-employed is problematic, as tax enforcement is patchy and evasion widespread. Income tax is usually more progressive than sales taxes, with higher earners being liable for increased rates of tax. There has been little discussion of these issues by Muslim clerics, their main concern being that *zakat* payments can be offset against income tax liabilities. However, moral issues inevitably arise with income taxes, not least as to whether they should be applied to individuals or families and whether families with more children should pay lower rates. The opinions of contemporary Muslim clerics on such issues would be interesting, and indeed more relevant to modern fiscal policy choices than simply arguing that given *zakat* obligations income tax is unnecessary. This is not a practical or realistic position.

Inflation and unemployment concerns

The decision on what are the most appropriate economic policies depends on the objectives of the policy-makers. Unfortunately, objectives may conflict as, for example, most governments aim at low targets for inflation, but this may be at the expense of employment, as measures to reduce inflation by curtailing demand by government spending cuts may result in rising unemployment. If government spending exceeds revenues, the scope for looser monetary policy is also reduced, and the higher interest rates needed to curb inflation will also cause unemployment to rise as the greater costs of credit result in companies deferring investment plans.

Islamic economists highlight the social injustices arising from inflation as the poor are much less able to protect themselves than the more affluent. Unscrupulous traders are blamed for inflation as suppliers hoard stocks in the expectation of getting a higher price later. Subsidies are recommended as a means of helping the poor to cope. However, there is a failure to recognise that the anti-social behaviour of some traders is a symptom of a deeper malaise due to inappropriate macro-economic policies being pursued that fail to tackle fiscal deficits.[16] Populist measures such as increasing subsidies only worsen the problem and are unsustainable in the long run. There is little acknowledgement of trade-offs, such as the negative relationship between inflation and unemployment. Should Islamist political parties give priority to reducing unemployment, especially the youth employment so prevalent in the Muslim world, or to tackling inflation because of the distortions it causes in the banking system and capital markets?

Egypt, Iran and Sudan appear to have the worst records on inflation with double digit rates most years over the period from 2010 to 2014, as Table 3.2 shows. In contrast, Malaysia, Morocco and the UAE appear to have inflation

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Table 3.2 Inflation in consumer prices and broad money (%)

Country	2010	2011	2012	2013	2014	M2/GDP
Algeria	2.7	5.2	9.0	8.2	4.5	61.0
Azerbaijan	7.9	5.5	–0.3	6.0	6.5	31.1
Bangladesh	8.3	10.6	7.7	6.9	6.5	69.7
Egypt	10.7	11.8	7.2	9.7	10.4	74.1
Indonesia	6.9	3.8	4.3	9.5	6.0	40.1
Iran	20.0	21.8	41.2	35.0	25.0	N/A
Iraq	3.3	6.0	3.6	4.0	5.5	31.5
Kazakhstan	7.8	7.4	6.0	6.0	6.2	34.7
Kuwait	4.5	4.9	3.2	3.0	3.5	N/A
Libya	3.3	26.6	–3.7	10.0	9.0	N/A
Malaysia	2.1	3.0	1.7	2.0	2.6	141.2
Morocco	2.2	0.9	2.6	2.3	2.5	113.9
Nigeria	11.7	10.3	12.0	9.7	7.0	36.5
Pakistan	11.8	13.3	11.3	5.8	10.0	39.9
Qatar	0.4	1.9	1.8	3.7	3.9	54.4
Saudi Arabia	5.8	3.6	3.7	3.8	3.5	54.1
Sudan	15.3	18.9	44.4	19.8	30.2	27.9
Tunisia	4.1	4.2	5.9	5.3	5.0	66.7
Turkey	6.4	10.4	6.2	8.0	6.0	55.4
UAE	0.9	0.7	1.1	2.0	2.5	61.2

Source: World Economic Outlook Database, IMF, Washington DC, 2014.

well under control, as 2 per cent inflation annually represents zero inflation in reality due to continuous improvements in the quality of the goods included in the index. Historically, Turkey had high rates of inflation, but a combination of policies to increase the supply capacity of the private sector and to pursue more responsible government spending has resulted in inflation falling, although it remains high by European standards.[17] This is of concern given the extent of Turkey's trade with the European Union (EU).

Unemployment is wasteful as if people are not engaged in economic activity they cannot realise their God-given potential by contributing to society. From an Islamic perspective unemployment can be regarded as immoral, and much of the debate about unemployment centres on who is responsible, governments or the unemployed themselves, or indeed both. Contributors to the Islamic economics literature stress the social obligation to help the poor, but does this extend to a responsibility to provide employment for everyone, something which no society anywhere has been able to achieve. The discussion over responsibility for unemployment is part of the wider debate between the religiously orthodox, who adopt a communitarian perspective viewing individuals as subsumed by the larger community of believers, and modernists, who stress individual moral decisions.[18] For the latter, individuals who drop out of school

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or college without making much effort to learn or who are unreliable employees bear responsibility for their own unemployment.

Unemployment, especially youth unemployment, is prevalent throughout the Muslim world, and is probably higher than the global average. The rate is particularly high in Sudan, Tunisia, Iran and Egypt, as Table 3.3 shows, but lower in resource-rich countries and in the more successful southeast Asian economies, notably Malaysia and Indonesia. Youth unemployment was regarded by many as a significant cause of the Arab Spring, although the subsequent political instability has aggravated matters further.[19] The accuracy of unemployment statistics must, of course, be questioned in Muslim majority countries with no unemployment benefit systems. People are less likely to classify themselves as unemployed if there are no state hand-outs, but rather to work casually in the informal sector simply to survive.[20]

In low population, resource-rich countries such as Kuwait unemployment is low largely because governments employ most local citizens, and the employees in the private sector are mostly foreign nationals on short-term contracts. Any economic downturn results in the contracts not being extended and the workers returning to their home countries, rather than remaining in countries such as Kuwait and being unemployed. Resource-rich countries with larger populations are, however, struggling to provide employment for local citizens as in the case of Saudi Arabia.[21] The situation has worsened since the Arab Spring as the substantial salary increases given to local nationals by governments trying to buy off discontent have made them internationally uncompetitive and resulted in a wage bill that is not sustainable, especially if oil and gas prices drop.

Table 3.3 Unemployment rates (%)

Country	2010	2011	2012	2013	2014
Algeria	10.0	10.0	10.0	10.0	9.8
Azerbaijan	6.0	6.0	6.0	6.0	6.0
Egypt	9.2	12.1	12.3	13.0	12.8
Indonesia	7.1	6.6	6.1	5.9	5.8
Iran	13.5	12.3	12.2	13.2	14.5
Kazakhstan	5.8	5.4	5.3	5.3	5.3
Kuwait	2.1	2.1	2.1	2.1	2.1
Malaysia	3.3	3.0	3.0	3.1	3.0
Morocco	9.0	8.9	9.0	8.9	8.8
Nigeria	21.1	23.9	N/A	N/A	N/A
Pakistan	5.5	5.9	6.4	6.7	6.9
Saudi Arabia	5.5	5.8	5.5	N/A	N/A
Sudan	17.5	17.5	18.0	19.0	20.0
Tunisia	13.0	18.3	17.6	16.7	16.0
Turkey	11.9	9.8	9.2	9.4	9.5

Source: World Economic Outlook Database, IMF, Washington DC, 2014.

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Misallocation of government spending

Military spending has been a priority in many Muslim countries, usually not to defend nations against the threat from *infidels*, but rather as a result of perceived threats internally or from other Muslim countries. The sectarian split between Sunni and Shi'a has long fermented conflict, and the divisions seem to have increased in recent years. Evidence for this is apparent from the civil war in Syria, the divisions in Lebanon, and the violence in Iraq since the Sunni leadership under Saddam Hussein was overthrown and replaced by Shi'a majority leaders.

The high levels of military expenditures in Saudi Arabia and the UAE shown in Table 3.4 reflect the perceived threat from Shi'a Iran and not worries about Israel and the failures of the peace process between Israel and the Palestinians. Military expenditures in Egypt and Turkey would be much higher were it not for domestic budgetary constraints, as these countries lack the oil incomes of the Gulf states who can afford to spend more. Military spending fell as a percentage of GDP in Saudi Arabia and UAE between 2000 and 2008, but it is now rising again in both countries, and the contracts that have already been signed for highly sophisticated and expensive military equipment means spending is likely to rise further over the next ten years, even if the Iranians agree to an inspection system for their nuclear facilities to verify

Table 3.4 Military expenditures (% GDP)

Country	2000	2004	2008	2012
Saudi Arabia	10.6	8.4	8.0	8.9
UAE	8.3	4.6	3.7	5.4
Algeria	3.4	3.3	3.0	4.5
Morocco	2.3	3.4	3.3	3.5
Kuwait	7.2	5.8	3.0	3.3
Libya	3.1	1.9	1.2	3.2
Pakistan	3.7	3.6	2.8	2.7
Iraq	N/A	1.7	2.2	2.7
Turkey	3.7	2.8	2.3	2.3
Egypt	3.2	3.0	2.3	1.7
Tunisia	1.8	1.6	1.3	1.6
Malaysia	1.6	2.3	1.9	1.5
Kazakhstan	0.8	1.0	1.1	1.2
Bangladesh	1.3	1.1	1.0	1.1
Nigeria	0.8	0.7	0.8	1.0
Indonesia	0.5	0.9	0.6	0.8
Iran	3.8	3.1	2.1	N/A
Sudan	4.5	4.7	N/A	N/A

Source: Stockholm International Peace Research Institute, 2013.

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that they have been installed for peaceful purposes. Elsewhere in the Muslim world, military spending remains much more modest, with Pakistan's military focused on combating internal dissent rather than the historical threat from India. Indonesia, the most populous Muslim country, spends relatively little on defence. Malaysia spends more, partly reflecting the large amounts of territory it has to defend in North Borneo.

Far from being a bellicose religion as has been suggested by some during the post-9/11 period, Islamic teaching stresses the value of peace.[22] Apart from in Saudi Arabia and the Gulf states, there is no evidence that Muslim majority countries allocate more spending to the military than Christian or Buddhist countries or those where other religions predominate. In Saudi Arabia and the Gulf states, military spending reflects oil wealth, not religion, and, given this wealth, spending decisions are not constrained by military imperatives. Elsewhere in the Islamic world, it is even more difficult to assert that religion is distorting spending with detrimental effects on economic activity. Indeed, given the size of the army and the extent of the military establishment in countries such as Egypt, which includes schools and hospitals, much of the military spending can be classified as social spending rather than expenditure on weapons. The manpower bill accounts for much of the spending, fuelling demand for goods and services in the wider economy; hence, not all of the military spending should be regarded as unproductive.

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